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THE COST OF FOOD

Address by Donald E. Montgomery, Consumers Counsel, of the Agricultural Adjustment Administration, at the Conference on the High Cost of Living, Hotel Pennsylvania, New York City, 2 p.m., Eastern Standard Time, December 14, 1935.

The subject of your conference is the high cost of living; the subject you assign to me is the high cost of food. The implied meaning is that the cost of living and the cost of food is too high. In short, this is a consumers' conference and the point of approach is from the consumer side rather than the producer side. I do not suppose that producers whose goods are included in this "high" cost of living are of the opinion that their prices are too high, and I do not suppose they are holding conferences to see what can be done about the "high" cost of living. Among agricultural producers, to be sure, a definite effort is being made at this time to bring about an increase in production that will result in lower prices of some farm products. But I do not mean to imply that agricultural producers, any more than business men, look upon lower prices for their products as a permanent goal; they do not.

The traditional consumer point of view, however, runs in a contrary direction. Price reductions are looked upon as making possible a larger volume of purchases; price increases are looked upon as having the opposite effect. Like the producer who thinks he sees his own prosperity in constantly rising prices, the average consumer probably wants prices always to be going down. Any retail price is too high if it happens to be higher right now than it was a

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short time ago. The high cost of living, the high cost of food, are the consumers' way of describing living costs and food costs that are no longer as low as they were a short while ago.

In its broader aspect, that is to say, within the purview of the public welfare, this conflict between producer goals and consumer goals doesn't make sense. We know well enough that all producers are consumers and practically all consumers are also producers. Even if this were not the case, it would be the course of common sense for producers and consumers to come to some understanding with each other and to give up the impossible task of trying to ride the same horse at the same time in diametrically opposite directions. But as a practical matter it is necessary that each interest speak for itself and leave it to the others to do likewise. Having for the most part no means of attacking their conflicting problems together, they can hardly do otherwise than go it alone and make the most of their individual viewpoint. Especially is this true of the consumer whose ways and means of getting himself represented in the deliberative processes of government, trade groups, and courts of law seem always to lag behind the more highly developed methods of other groups. It is my guess that the attitude of consumers toward the "high cost of living" will remain just about what it always has been until some way has been discovered for giving informed, effective and representative voice to their interests wherever group decisions are made or common problems are debated, within the field of government or within the self-governing mechanisms of trade and industry.

This is much easier to state than to reduce to specifications. The enlarged scope of collective action on the part of agriculture and industry which has come to pass in the last few years may lead to a more definite drive among consumer groups to develop a representative mechanism of their own. It is to be hoped that it will. But we all recognize the peculiar difficulties which consumer

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groups must overcome if they are to approach the trade group or the farm group in effectiveness of action. Buying commodities for home consumption is probably the most diverse industry in the world. There is no one objective like the wage rate or the schedule of selling prices upon which the intelligent consumer interest can concentrate its efforts. It must become expert in all industries and must learn how to treat with all interests, for the act of consuming stands as the end point of all of them and each of them bears rather directly upon it. Nevertheless, the effort should be continued. In my opinion a new start along that line was made this year when the President by executive order set up a new office known as Adviser to the President on Consumer Problems. I think that such an office, comprehending within its field of interest all governmental activities affecting the consumer, and responsible directly to the chief executive, is something of considerable importance to consumers and consumer groups. I do not for a moment wish to be understood as saying that any such office in the federal government can handle the whole problem of consumer representation. Obviously it cannot. Consumers must learn to speak for themsleves, and not only to government agencies but to economic groups outside of government.

The question of whether food prices are high or low may be a simple question of fact to some of you, or to all of you. If the subject you have given me is intended to express a conclusion that the cost of food <u>is</u> high -- too high -- you have been able to reduce it to simper terms than I have. As I see it, it is both a question of statistics -- that is, the measured facts of the past and present -- and it is a question of objectives -- that is, our private purposes and public purposes respecting the present and the future. Food prices that are too high for some consumers may not be too high for others; food prices that are low enough for all consumers are too low for producers; food prices that are too high for all consumers are probably too high for producers also.

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The question of whether food prices are high or low may be a different question of fact to some of you, or to all of you. If the subject you have given me is intended to express a conclusion that the cost of food is high — too high — you have been able to phrase it in stronger terms than I could. As I see it, it is both a question of statistics — that is, the measured facts of the past and present — and it is a question of objectives — that is, our private purposes and public purposes respecting the present and the future. Food prices that are too high for some consumers may not be too high for others; food prices that are too low for all farmers are too low for industrial food prices; food prices that are too high for all consumers are probably too high for producers also.

To keep these several considerations as clear as I can, I shall first attempt to summarize the statistical facts about present food prices, and then give some attention to the question of objectives.

The present acute interest in food prices arises, of course, from the fact that they have been going up for almost three years. As a matter of fact, the retail food price index published by the Bureau of Labor Statistics has been quite stable since last April, with the trend slightly downward since June, and the latest index about 8½ percent above the corresponding date a year ago. But during that year certain items of food, notably meat, have increased rather sharply, and those things stick in one's mind more than the general average. Chart 1 compares present retail food prices, present factory payrolls, and present cash income of farmers with two earlier periods. Indexes for the month of October, 1935, represent the present. The indexes for October 1932 represent conditions at the bottom of the depression. The average for the years 1923 to 1925 is taken to represent conditions before the depression, those years being selected for that purpose because the revised food index is not yet available for the years 1926 to 1929.

The first section of this chart shows where food prices now stand as compared with October, 1932. The horizontal line across the chart represents the average for that earlier month; the distance of the bars above the line shows the increases that have taken place since then. Food prices last October were up 21 percent over October 1932; factory payrolls were up almost 70 percent, and farmers cash income was up more than 90 percent above the low levels of October 1932. Benefit payments under AAA programs are included in the computation. Without benefit payments farmers' income was 75 percent above 1932.

I suppose we can all agree that conditions in October 1932 were not the kind of conditions that any of us would want to continue. They do not, therefore, afford a satisfactory basis against which to measure conditions at present.

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Chart 1 compares present retail food prices, present factory payrolls, and present cash income of farmers with two earlier periods. Indexes for the month of October, 1936, represent the present. The indexes for October 1932 represent conditions at the bottom of the depression. The average for the years 1923 to 1925 is taken to represent conditions before the depression, those years being selected for that purpose because the Portland food index is not yet available for the years prior to 1923.

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In the second section of the chart, October 1935 is compared with the averages for the years 1923-25. This, I think, is the more significant as showing where we now stand. Retail food prices in October were just 20 percent below the 1923-' average; factory payrolls were 25 percent below, and farmers' cash income, including benefit payments, was at the same level as factory payrolls. Benefit payments account for about 6 points out of the 74½ percent which is the present measure of farmers' income on this basis.

The next Chart (2) makes similar comparisons for 5 of the 8 classes of foods into which the Bureau divides its retail price index. Comparing last October with the same month three years earlier, the chart shows that meat has had the largest increase (38 percent); cereals and bakery products next (27 percent); eggs next (16 percent); followed here by dairy products (13 percent); while fruits and vegetables, fresh, canned and dried, have scarcely increased at all (3 percent). I should point out that October 1932 is not an equally satisfactory measure of the low point of the depression for all of these groups. Meats, for example, were lower in October 1933, and from that later date the increase to October 1935 was 48 percent.

In the second part of the chart the comparison of October 1935 is made with 1923-1925. All foods combined, you will recall, were in that month 20 percent below the average for those years. Meats are 1 percent above the pre-depression figure. Cereal and bakery products are 6 percent below; eggs are 15 percent below; while dairy products and fruits and vegetables are now selling at prices that are 26 percent and 47 percent respectively below the prices at which they sold in 1923-25.

The next picture (Chart 3) illustrates the trend of the Bureau of Labor Statistics cost of living index, which, as you know, is designed to measure the movement of living costs of wage earners and low-salaried workers. At the low

In the second section of the chart, [illegible] are compared with the average for the [illegible] period. What I think is the most significant [illegible] is that [illegible] prices in October were [illegible] 40 percent below the [illegible] [illegible] parity, were 25 percent below, and [illegible] at the same level as [illegible] parity. [illegible] [illegible] which is [illegible] of the 100 percent which is the present measure of [illegible] on this basis.

The next chart (3) shows similar comparisons for [illegible] of the [illegible] [illegible] [illegible]. [illegible] [illegible] [illegible] together with [illegible] [illegible] [illegible], [illegible] about [illegible] and [illegible] [illegible] [illegible] and dairy products were (90 percent) [illegible] [illegible] [illegible] by dairy products [illegible] [illegible] [illegible], fruit, [illegible], [illegible] [illegible] [illegible] percent. I would point out that [illegible] [illegible] [illegible] [illegible] of the [illegible] [illegible] of these groups. [illegible], for example, [illegible] [illegible] [illegible], and [illegible] [illegible] [illegible] [illegible] in October [illegible] 40 percent.

In the second part of the chart the [illegible] of [illegible] [illegible] [illegible] [illegible]. All [illegible] [illegible], [illegible] [illegible] [illegible] [illegible] [illegible] percent [illegible] [illegible] [illegible] [illegible]. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible] [illegible] percent [illegible] [illegible] 15 percent [illegible] while dairy products and fruits and vegetables are [illegible] [illegible] [illegible] 5 percent and 17 percent [illegible] [illegible] [illegible] [illegible] [illegible].

The [illegible] [illegible] (Chart [illegible]) [illegible] the trend of the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible], [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible], at the [illegible]

point here in December 1932 the cost of living had fallen about 23 percent from 1923-25. On the same date food costs had declined more than any of the six classifications that are included in this cost of living index. They were down 35 percent. The miscellaneous items which include toilet articles, tobacco, cleansers, various services, transportation costs and recreation, were just about where they had been in 1923-25 (down one percent), fuel and light was down only 10 percent and rent 27 percent.

From December 1932 to July 1935 (the latest date for which this index has been reported) the cost of living has risen slowly and in July was about 80 percent of the 1923-25 average, an increase of just about 4 points over the 1932 low. Food costs have come up more rapidly than the other five items in the list, but stand now at the same level relative to the pre-depression figure as the cost of living as a whole. The food rise has been followed closely by housefurnishing goods (up 16 percent), and by clothing (12 percent). Miscellaneous, fuel and light, and rent, have fallen since 1932, but only rent is now relatively lower than food prices.

The last statistical chart I wish you to consider is an attempt to summarize most of what we know about the spread between farm prices and retail prices of food commodities. This is based upon ten important foods; beef, pork, hens, eggs, butter, cheese, milk, flour, bread, and potatoes. It was prepared by the Bureau of Agricultural Economics. A more comprehensive study is under way including a much larger number of foods, but the ten foods here included are of primary importance and probably constitute a large part of the average American food bill.

The chart shows at the top the changing total retail value of the quantities of these ten foods found to have been purchased per month by some 12,000 families in the 1919 survey of the Bureau of Labor Statistics. The line below

it shows the value at the farm of that quantity of farm products which is required to furnish the retail quantities upon which the upper line is based. In the second part of the chart is shown the difference between these two values. This is the total spread or margin between retail value and farm value; in other words, it is the total amount taken for transporting, handling, processing and distributing this quantity of food by all those who intervene between the farmer and the consumer. At the bottom of the chart this margin is computed as a percentage of the retail values shown at the top of the chart.

The general tendency of this margin figure is to follow farm and retail values up and down; but since the war period the rise and fall of the margin is less than the rise and fall in farm and retail values, a fact which appears to be explained at least in part by the obvious fact that there are numerous expenses in the nature of fixed charges along the route of distribution from farm to retail market. Farm values declined more than 50 percent and retail values more than 30 percent from 1923-25 to October 1932, but the margin dropped only 13 percent. On the rebound, however, farm values have come up 80 percent, retail values 30 percent, and the margin only 4 percent, leaving us with a present margin 9 percent less than the 1923-25 average. In this calculation the amount representing processing taxes is deducted from the margin and added to the farm value.

In the 1923-25 period the farmer received 49 cents of the consumer's food dollar spent for these 10 foods, which compares with about 55 cents in the pre-war period. In 1932 the farmer received only 35 cents of the retail dollar, but by October of 1935 his proportion had increased to 48½ cents, of which about 3½ cents was derived from processing taxes.

These are the statistics that bear on the question of how high are food prices. How high are they?

First answer: Compared with other items in the cost of living they are no higher now than these other costs, relative to 1923-25. Relative to the years between 1925 and 1929 they appear to be somewhat lower now than other living costs.

Second answer: Compared with factory payrolls, which go to buy food, and with farmers' income, which comes from producing it, they are a little high as compared with the 1923-25 base. However, this gap between income measures and the measure of food prices has been closing rapidly during the past year. In October a year ago the payroll index was 15 points below the food index; this year it was 5 points below.

Third answer : The farmers' present share of the consumers' food dollar appears to be considerably larger than it was before food prices began to go up three years ago; it is about the same now as it was in 1923-25.

Fourth answer: The number of dollars going to transporters, handlers and processors on a given quantity of foods, is larger, by a small amount, than it was in 1932, but it is nearly ten percent smaller than it was in 1923-25. As a percentage of the retail food dollars, however, it is about the same now as it was in that base period.

By these measures the cost of food is not out of line with other factors measuring the extent of recovery. Where food prices would be if there were no AAA programs and if there had been no drought, we do not know. Meat, poultry and egg prices are certainly higher than they would be under AAA programs if there had been no drought. If we had had the drought but no AAA program, prices of such products would probably be as high as they are now. Effects of the drought are being remedied as quickly as possible. Lower meat prices, especially pork, are to be expected some time next summer. Bread prices should not go up much, if any, above the present average level, and wheat planting prospects should bring lower prices next summer if the yield is normal. Egg production will increase. Potatoes will be higher than last year. Other fruits and vegetables will be very plentiful and the milk supply will be one of the largest on record.

But these statistical measures do not paint the full picture of food prices. They do not relate food prices to the facts of unemployment and the level of income of those on relief. They do not bring out the fact that when short supplies cause too high prices, as in the case of meats, families at the low income levels are the families who do without while families who are better off continue to get the food they want. Finally, they do not tell us how adequate diet is to be provided for millions of people who, year in and year out, are unable to buy the food they need. There is no doubt whatever that the cost of food is a serious matter to large numbers of our population.

This is not a new situation. It existed also in 1929 when we flattered ourselves that we were enjoying prosperity. It became much worse as the depression advanced, and while it is certainly better now than it was in 1932, the fact that large numbers of people cannot buy enough food stands as a challenge to anyone in private business or in public office who has the slightest concern for the national welfare.

Economists of the Bureau of Home Economics have estimated that to have a satisfactory margin of safety over minimum nutritional requirements, a family would have to be able to spend between \$120 and \$150 per person per year for food, on the basis of prices prevailing in the last quarter of 1934. Since a family of four would probably need a total income above \$1,500 a year to be able to spend as much as \$135 per person for food, we may inquire how many families were below that level. Looking back to 1929 we find that of the 22 million non-farm families in the United States 7-1/2 million families had less than \$1,500 a year to live on. Food prices in 1929 were 35 percent higher than they were in the last quarter of 1934. On \$1,500 a year these families presumably could not buy enough food to provide a satisfactory margin of safety above/minimum bodily requirements, unless they sacrificed in an unusual degree in what they spent for other necessities. One-third of all non-farm families had less income than they needed to buy the diet they need; and that was in the prosperity year of 1929.

Obviously this is a broad approximation based upon what we can find out about how families at different income levels spend their money, what they get to eat and how many families get how much income. But the exact number of families is not the point, the point is that there were great numbers of people in 1929 whose income was not enought to provide them with the food they ought to have.

Is the solution of this grave condition to beat down present food prices, or is it to build up employment and income so that consumers have enough money with which to buy the food they need? That is the heart of the question. You will not find the answer to it in requiring farmers to sell their products so cheaply that everyone, regardless of income, may buy all the food he needs. Food prices were lower in 1932 than at any time since the war. Even so, millions of people had to go without adequate diet because they lacked sufficient income. Prices received by farmers in that year were even more drastically reduced and farmers were not able to support themselves on what they were then receiving. Lower prices of farm products is not the answer to this question except for those commodities which still show the effects of the drought and for which it is being answered by increasing production as rapidly as that can be done.

This is not a question of prices alone; it is not primarily a question of price. It is a question of insufficient physical output of the products of industry and of insufficient incomes. It will not be answered until industry increases output and puts the unemployed back to work at useful production. No permanent solution will be found until the time comes when all of our industries, including agriculture, can go forward together on a coordinated program of increasing production. At present agriculture waits upon industry for the upturn in this direction.

In 1932 the physical output of the products of industry was 40 percent less than the average output of the seven years 1923 to 1929. In the same year the physical output of farm products was higher than the 1923 to 1929 average by a fraction of one percent. Farmers were still producing not only the usual amounts for domestic consumption but in addition were continuing to produce for foreign markets that were no longer open to them. In 1935, a year still affected in considerable degree by the drought of 1934, the physical volume

of farm output will be about 10 percent below the seven-year average, and the physical output of industrial products will be about 15 percent below that average. Industrial output reached its peak in 1929; agricultural output in 1931. Industrial output in 1935 will be 24 percent below 1929, and agricultural output will be 17 percent below its 1931 figure.

By this comparison it can be seen that industry has curtailed more than agriculture, although the necessity to reduce output because of the restriction of export markets fell much more heavily upon agriculture than upon industry.

Agriculture is ready to do its part in that balanced increase in farm and factory output by which the standard of living of the entire population can be enormously improved without destroying any element in the population that contributes its share. Right now it is helping to make possible a national effort toward greater abundance by continuing to produce and to make available for domestic consumption at least that quantity of food which past experience has shown to be the normal per capita consumption in this country. Producers of any particular farm crop might increase their total income if they followed the plan, not unknown in industrial circles, of restricting their output to that quantity which would bring them a maximum return for the whole crop. In most, probably in all, agricultural products, such restriction would reduce the supply below the per capita normal of past years. It would be a short-sighted view of agricultural welfare, in my opinion, that would recommend that policy. I do not believe that the long range prospect for agriculture would be improved by restrictive measures of that sort. Let me quote the Secretary of Agriculture on that point:

"It will be a serious mistake for the farmer deliberately through the use of governmental power to produce a subnormal quantity of food stuff for domestic consumption in an effort to get high prices. Consumers are learning that excessive production at low prices for a market which doesn't exist brings unemployment and bankruptcy.

"From a long-run point of view, we must pay as much attention to consumer equities and parities as to farm equities and parities in administering the Agricultural Adjustment Act. Continuance of agricultural adjustment activities on any other basis would not be justified."

I believe that the farmers of the country agree with that point of view and will plan their production to meet at least the normal per capita requirements of the population. In so doing they make their immediate contribution to the larger possibility of a balanced increase of output on the agricultural and industrial fronts alike. For mind you, these normal per capita food requirements are only what the history of recent years has shown that we do consume. They are not the food supply which we could consume and which we should be able to consume. The studies of the Bureau of Home Economics, to which I have already referred, indicate that if those 7 million non-farm families, which in 1929 could not spend enough to meet minimum food requirements with a margin of safety, could now have enough income to make such expenditure possible, very substantial increases in the demand for agricultural products would result. Output of fresh fruits and vegetables, excluding potatoes, could be increased by more than 40 percent to meet such an enlarged demand; eggs and butter would increase almost as much; one-third more milk would be required than is now consumed; and the consumption of meat would increase by twenty percent.

All economic interests have a stake in finding the balanced relationships that will bring abundance. The consumer interest has a most vital concern in it. And the consumer interest, like all these others, will not find its objective if it works in a vacuum. Consumers, however much they may feel to the contrary, are not concerned solely with getting lower prices. To say that they are, is to assign to them a point of view which corresponds exactly with the views of any business or producing interest that disregards volume and seeks

only the maximum in price. There is a broader view of the matter which suggest that the chief concern of consumers is for increased quantities of both farm and factory products made accessible at prices which they can afford to pay. The relation of prices to income is the immediate question for the consumer; but the effect of both upon a continuing production of goods and services, and a continuing increase in that production, is the ultimate question for the consumer, and the question upon which the consumer interest must concentrate its attention if it is to emerge from its present comparative obscurity and is to contribute anything to that pool of interests which we call our "economic system."

In this discussion I have touched on many things. Out of the variety of subjects I would like to make one thing clear: that the interest of consumers will best be served when consumers concentrate upon increased production as their major goal. Other interests share this goal with consumers; it is one national goal which no group and no school of though repudiates. But it is peculiarly the consumer goal; other economic groups are confronted with difficulties which prevent them from pursuing it to the exclusion of other purposes. Business considerations interfere, questions that turn upon the rate of profit, the rate of return on investment, the wage rate, selling prices per pound or per ton, direct and overhead costs per unit of output. These are real questions, and it is the part of business, financial and labor interests to cope with them; but it is the part of the consumer to insist that these questions be answered on the side of MORE not LESS, that restriction of output be not invariably the solution dictated by business expediency.

If the consumer interest does not voice this demand, no other will; it will be displaced again and again by the pressure of more immediate practical problems. Too often in the circle of higher wages, higher prices, higher profits, the gains in dollar values cancel out and the volume of production

is left where it was, or is reduced. In the consumer economy physical units of output are the end in view, prices are the means to that end. It is the role of the consumer in the economic forum to keep that logic straight, to demand that the goal of larger production be not lost sight of in the struggle for price advantage.

American agriculture, in my opinion, will meet that demand. Under AAA plans, the normal per capita food consumption of past years will be provided for, and when industry through increased output expands the income of city consumers beyond the inadequate normal of past years, farmers will respond with that greater quantity of foodstuffs which we need and have needed but will then for the first time be able to pay them to produce.

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